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REPORT OF INVESTIGATION

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
OFFICE OF INSPECTOR GENERAL**

Case No. OIG-496

**Allegations of Conflict of Interest, Improper Use of Non-Public Information
and Failure to Take Sufficient Action Against Fraudulent Company**

January 8, 2010

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Introduction and Summary of Results of Investigation

On July 10, 2008, the Securities and Exchange Commission ("SEC" or "Commission") Office of Inspector General ("OIG") opened an investigation after SEC Chairman Christopher Cox's former Chief of Staff asked the OIG to review allegations against a former Division of Enforcement ("Enforcement") attorney. The allegations were outlined in a *Wall Street Journal* article about hedge fund Greenlight Capital LLC ("Greenlight Capital") manager David Einhorn's ("Einhorn") then soon-to-be released book, *Fooling Some of the People All of the Time - A Long Short Story* ("Einhorn's book"). The article stated that one of Einhorn's complaints was that [REDACTED] who aggressively questioned Einhorn about his short-selling of Allied Capital Corporation ("Allied") stock, became a registered [REDACTED] for Allied after he left the SEC. In addition, the article noted that Allied obtained purloined copies of Einhorn's telephone records. The former Chief of Staff was concerned, *inter alia*, that [REDACTED] may have engaged in illegal activity and taken non-public SEC investigatory materials, including Einhorn's telephone records.

In 2005, the OIG conducted a brief preliminary inquiry into similar allegations outlined in a letter from Einhorn's counsel, Richard Zabel ("Zabel"), to the OIG.¹ The 2005 inquiry

¹ That letter alleged that [REDACTED] may have been: (1) [REDACTED] Congress regarding the Commission's investigation of Allied, which Zabel claimed [REDACTED] participated in, and (2) using to Allied's advantage non-public information about Einhorn and Einhorn's hedge fund Greenlight Capital, which [REDACTED] learned through his participation in the Enforcement investigation of Allied. Zabel attached the form which registered [REDACTED] as a [REDACTED] for Allied. Zabel claimed that [REDACTED] may have violated a criminal statute, Commission rules, and/or attorney bar rules.

